



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL I EXAMINATION - JANUARY 2022

(104) BUSINESS ENVIRONMENT

27-03-2022

Afternoon

[02.00 - 5.00]

• **Instructions to candidates** (Please Read Carefully):

- (1) **Time:** 03 hours. No. of Pages : 06
- (2) **All questions should be answered.** No. of Questions : 06
- (3) **Answers should be in one language, in the medium applied for, in the booklets provided.**
- (4) **State clearly assumptions made by you, if any.**
- (5) **Action Verb Check List with definitions is attached. Each question will begin with an action verb excluding OTQ's. Candidates should answer the questions based on the definition of the verb given in the Action Verb Check List.**
- (6) **100 Marks.**

SECTION A

Objective Test Questions (OTQs)

(Total 40 marks)

Question 01

Select the most correct answer for question No. 1.1 to 1.10. Write the number of the selected answer in your answer booklet with the number assigned to the question.

1.1 Which one of the following is an advantage of a Private Limited Company when compared with a Sole Proprietorship?

- (1) Unlimited liability. (2) Quick decision making.
(3) No going concern. (4) Attracting more capital.

1.2 The maximum number of shareholders of a private limited company is:

- (1) 2. (2) 20. (3) 40. (4) 50.

1.3 Which one of the following is **not** an element in the process of communication?

- (1) Sender. (2) Risk. (3) Receiver. (4) Feedback.

1.4 Which one of the following is **not** a primary document used in foreign trade?

- (1) Share Certificate.
- (2) Bill of Lading.
- (3) Certificate of Origin.
- (4) Commercial Invoice.

1.5 A party who can cancel a crossing of a cheque is:

- (1) Drawee.
- (2) Drawer.
- (3) Payee.
- (4) Bank.

1.6 Which one of the following is **not** a feature of good transportation system?

- (1) Speed.
- (2) Safety.
- (3) Non availability.
- (4) Capacity.

1.7 Real Time Gross Settlement System in Sri Lanka was introduced by:

- (1) The Central Bank of Sri Lanka.
- (2) Licensed Specialized Banks.
- (3) Finance Companies.
- (4) The Colombo Stock Exchange.

1.8 Which one of the following is **not** a social and economic benefit of entrepreneurship?

- (1) No going concern.
- (2) Alleviation of poverty.
- (3) Creating fair competition.
- (4) Creating new employment opportunities.

1.9 Which one of the following is a challenge faced by Small & Medium Enterprises (SMEs) in Sri Lanka?

- (1) Lack of economies of scale.
- (2) Skill-shortage.
- (3) Poor management practices.
- (4) All of the above.

1.10 Which one of the following is **not** a way of enhancing the performance of SMEs?

- (1) Modern technology.
- (2) Entrepreneurial culture.
- (3) Access to finance.
- (4) Poor leadership.

State whether each of the following statements from **1.11** to **1.15** is **True** or **False**. Write the answer (True/False) in your answer booklet with the number assigned to the question.

- 1.11** Money market deals with instruments such as shares, debentures, etc.
- 1.12** The principle of indemnity is relevant for life insurance.
- 1.13** Selling secret information to a third party is an example for violation of business ethics.
- 1.14** An entity which has more than 300 employees is considered as a Small and Medium Sized Enterprise (SME).
- 1.15** Requirement to devote more time to home activities is a challenge faced by woman entrepreneurship.

Write the answers for question No. **1.16** to **1.20** in your answer booklet with the number assigned to the question.

- 1.16** State two(02) examples for needs.
- 1.17** Explain briefly what is meant by the entrepreneurship.
- 1.18** State two(02) differences between goods and services.
- 1.19** State two(02) reasons for the growing of need for entrepreneurship.
- 1.20** State two(02) features of a joint venture. (02 marks each, Total 40 marks)

End of Section A

SECTION B

(Total 40 marks)

Question 02

“Guruthala” is a supermarket chain owned by **Amila**. Currently it has 12 outlets in the suburbs of Colombo. With the objective of expanding of **“Guruthala”** in other areas of the country, **Amila** wants to raise more capital and he is planning to list the business in the Colombo Stock Exchange within next 5 years.

You are required to:

- (a) (i) **Identify** the type of business organization that **“Guruthala”** belongs to now. (01 mark)
 - (ii) **State** three(03) characteristics of that type of a business organization. (03 marks)
 - (b) **Explain** three(03) features of a Public Limited Company. (06 marks)
- (Total 10 marks)

Question 03

Kohu Ltd. is a fiber factory, which uses coconut husk as its primary raw material. The fiber extracted from the husk is stored in a nearby building to the factory. Last Friday evening, this storeroom caught with fire, causing about Rs. 1 million loss to **Kohu Ltd.** An insurance policy was obtained by **Kohu Ltd.**

You are required to:

- (a) **State** a suitable insurance policy for **Kohu Ltd.** (02 marks)
 - (b) **Explain** how principles of insurable interest and proximate cause affect to the insurance obtained by **Kohu Ltd.** (04 marks)
 - (c) **Explain** two(02) ways how the insurance contributes to economic development of a country. (04 marks)
- (Total 10 marks)

Question 04

ODO is an online platform that delivers food items to consumers from restaurants and bakeries with its delivery fleet. The Covid-19 pandemic has caused increased profits of the business since several new restaurants have partnered with **ODO** to get their deliveries. Using the **ODO** platform, customers select the preferred restaurant or bakery and place the order after making the payment.

You are required to:

- (a) **State** three(03) advantages of a properly managed distribution channel. (03 marks)
 - (b) **State** three(03) factors to be considered by consumers of **ODO** when using an online food delivery system. (03 marks)
 - (c) **Explain** two(02) ways how the government influences on business of **ODO.** (04 marks)
- (Total 10 marks)

Question 05

Lalith Bandara is the grandson of **Tikiri Bandara**, who started the **Bandara Tea Shop** in the Kahatagala junction about several decades ago. As the tea shop is near the main road, most travellers who visit the Kahatagala waterfall visit the tea shop. Also **Lalith** continued their family business and expanded the tea shop with a mini supermarket and a souvenir stall with credit card payment facilities to attract more tourists. He obtained a loan from a commercial bank to fund the expansion of his business. The bank manager supported in granting the loan as **Bandara Tea Shop** was one of the oldest customers of the bank.

You are required to:

- (a) **Identify** two(02) types of money used by **Bandara Tea Shop**. (02 marks)
- (b) **State** four(04) services that can be obtained by **Bandara** from a commercial bank other than loan facility, in conducting his business. (04 marks)
- (c) **Explain** two(02) benefits that could be achieved by **Bandara Tea Shop** analyzing the environment of the business. (04 marks)

End of Section B

(Total 10 marks)

SECTION C

(Total 20 marks)

Question 06

Rubex which is a manufacturer and an exporter of rubber pillows, mattresses, & gloves produced from natural rubber is a listed company in the Colombo Stock Exchange. Their products are exported to European countries and popular among customers under a famous supermarket brand. The manufacturing process at **Rubex** is a semi-automated process with limited labour involvement. However, **Rubex** needs skilled labour in some steps of its operation. The production workers are given one-month on the job training once they are recruited. However, due to the unavoidable smelly working environment, the labour turnover is considerably high. The job opportunities in the garment factories in the area have also contributed to the higher labour turnover at **Rubex**. With this labour issue, they turned into new factory automation projects. Further, selling rubber plantations for housing projects negatively impacts to requirement of raw materials. Consequently, **Rubex** has turned into a foreign raw material supplier in Thailand.

The COVID-19 pandemic has impacted **Rubex** negatively as well as positively. Though some regular orders from European supermarkets were cancelled, they received new orders for gloves from local and foreign buyers. The expedited factory automation led them to operate with limited labour during the COVID-19 pandemic. On the other hand, the Dollar crisis resulting from the COVID-19 pandemic has also impacted the raw material importation of **Rubex**. However, the concessions given by the banks and several other government bodies to the local exporters with the government involvement have been a relief for **Rubex**.

You are required to:

- (a) **State** three(03) advantages gained by **Rubex** through doing businesses internationally. (03 marks)
- (b) **Assess** the business environment of **Rubex** using SWOT. (06 marks)
- (c) **Explain** two(02) reasons why transportation and logistics are important for **Rubex**. (04 marks)
- (d) **Explain** the contribution of **Rubex** in achieving the economic growth and development of Sri Lanka. (04 marks)
- (e) **State** three(03) reasons for importance of the Colombo Stock Exchange to investors. (03 marks)

End of Section C

(Total 20 marks)

ACTION VERBS CHECK LIST

Level of Competency	Description	Action Verbs	Verb Definitions
Knowledge (1)	Recall Facts and Basic Concepts.	Draw	Produce a picture or diagram.
		Relate	Establish logical or causal connections.
		State	Express details definitely or clearly.
		Identify	Recognize, establish or select after consideration.
		List	Write the connected items.

Level of Competency	Description	Action Verbs	Verb Definitions
Comprehension (2)	Explain & Elucidates Ideas and Information.	Recognize	Show validity or otherwise, using knowledge or contextual experience.
		Interpret	Translate into understandable or familiar terms.
		Describe	Write and communicate the key features.
		Explain	Make a clear description in detail using relevant facts.
		Define	Give the exact nature, scope or meaning.

Level of Competency	Description	Action Verbs	Verb Definitions
Application (3)	Use and Adapt Knowledge in New Situations.	Reconcile	Make consistent / compatible with another.
		Graph	Represent by graphs.
		Assess	Determine the value, nature, ability or quality.
		Solve	Find solutions through calculations and/or explanation.
		Prepare	Make or get ready for a particular purpose.
		Demonstrate	Prove or exhibit with examples.
		Calculate	Ascertain or reckon with mathematical computation.
		Apply	Put to practical use.

Level of Competency	Description	Action Verbs	Verb Definitions
Analysis (4)	Draw Connections Among Ideas and Solve Problems.	Communicate	Share or exchange information.
		Outline	Make a summary of significant features.
		Contrast	Examine to show differences.
		Compare	Examine to discover similarities.
		Discuss	Examine in detail by arguments.
		Differentiate	Constitute a difference that distinguishes something.
		Analyze	Examine in details to find the solution or outcome.